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John Labatt Limited

ANNUAL REPORT

for the year ending 30th September, 1948

LONDON

CANADA



FOUR FAMOUS BEERS

Of Labatt's famous brands the best known is undoubtedly *India Pale Ale*. Brewed from an original English formula, awarded gold medals in Europe, Australia and America, it is a favourite among discriminating drinkers. Labatt's *Crystal Lager* with its new attractive label, has, for Lager drinkers, just the right light flavour . . . not too bitter, not too sweet. *Extra Stock Ale* . . . a premium brew with a superb tang is prized by those who want a richer, fuller ale. Finally, *XXX Stout* with its distinctive colour, flavour and body is brewed from malt and roasted barley.



A gratifying response from the consuming public attests the convenience of this handy, easy-to-carry six pint carton.

John Labatt Limited

ESTABLISHED 1832

ANNUAL REPORT

for the year ending
30th September, 1948



This trademark has come to stand for integrity. Integrity in the ancient and honourable craft of brewing. Integrity in the attitude of the company towards the public and towards its employees.

Annual General Meeting of Shareholders
19th January, 1949

IN CONTINUOUS OPERATION FOR ONE HUNDRED AND SIXTEEN YEARS

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The Aims of John Labatt Limited

The aims of John Labatt Limited are: first, to produce malt beverages of the finest quality; second, to make a fair profit on operations; and, third, to meet all of our obligations to our shareholders, our employees, our customers and to the community at large, all of whom contribute to and are responsible for the success of the Company.

DIRECTORS

JOHN S. LABATT.....London, Ontario
HUGH F. LABATT.....London, Ontario
MAJOR-GENERAL THE HON. S. C. MEWBURN, P.C., K.C., C.M.G.....Hamilton, Ontario
V. P. CRONYN.....London, Ontario
W. H. R. JARVIS.....New York City, New York, U.S.A.

OFFICERS

MAJOR-GENERAL, THE HON. S. C. MEWBURN, P.C., K.C., C.M.G.....Chairman of the Board
JOHN S. LABATT.....President
HUGH F. LABATT.....Vice-President
HUGH A. MACKENZIE.....Vice-President and General Manager
L. C. BONNYCASTLE.....Vice-President and Secretary
W. L. DAVIS.....Treasurer

SOLICITORS

Ivey & Livermore, London

AUDITORS

Clarkson, Gordon & Company, Toronto

TRANSFER AGENTS

The Canada Trust Company, Toronto, The Royal Trust Company, Montreal and Halifax, and The Bank of Montreal Trust Company, New York, U.S.A.

REGISTRARS

The Royal Trust Company, Toronto and Halifax, The Bankers' Trust Company, Montreal, and The Bank of Montreal Trust Company, New York, U.S.A.

The President's Report

To the Shareholders of John Labatt Limited:

Your Directors herewith present the Annual Report of the Company for the fiscal year ending 30th September, 1948.

FINANCIAL

The financial results of the year's operations are given in detail in the statements printed in this report. Major items are summarized as follows:

	1947	1948
Net Earnings	\$ 2.16 per share	\$ 1.92 per share
Taxes paid out Per Dollar of Sales	\$.49	\$.46
Earned Surplus at end of year	\$5,862,307	\$6,075,213
Working Capital	**\$2,882,993	\$2,124,216
Fixed Assets at Cost	\$6,610,582	\$8,010,193
Depreciation and Replacement Reserves	\$4,027,435	\$5,245,525

**The working capital at 30th September, 1947, has been adjusted to eliminate the wartime inventory reserve of \$516,433 which was released to surplus account as of 30th September, 1948.

EARNINGS AND DIVIDENDS

In deciding the dividend policy of the Company, your Directors have given consideration to the net earnings of the Company, to the reduction in working capital and to the problem of the proper amount which should be provided for depreciation out of the year's earnings.

The construction programme, referred to later in this report, indicates capital expenditures during the next year or two of some \$2,300,000. The additional facilities, when in operation, should improve the earnings of the Company. In your Directors' judgment, it is in the interest of the Shareholders to continue, insofar as possible, the policy of financing construction out of earnings.

Your Company is faced with a problem common to many companies to-day. It is using up fixed assets, acquired at costs substantially lower than those now prevailing, to provide current production. Depreciation has been provided for at the generally accepted rates so that at the end of the estimated useful life of these assets their original cost will be recovered out of the sale price of our products to the public. During the past few years, however, it is increasingly obvious that a reserve for depreciation at these rates will provide substantially less than the cost of replacing worn out or obsolete assets, due to the reduction in the purchasing value of the dollar. Many large corporations, in order to provide sufficient funds to replace assets at present day costs, have adopted the practice of providing depreciation on the basis of replacement costs, rather than on original cost, before arriving at net income.



Your Directors have given careful study to this problem and have obtained various opinions as to what should be done. They have concluded that no change should be made in the usual accounting method of providing for depreciation. They

feel that a radical change would confuse readers of our statements when comparing the results of current operations with those of previous years. Your Directors have, however, decided to transfer a further sum of one million dollars from Surplus to the Reserve for Replacements and Renewals, on the grounds that this sum at least must be retained within the business in order to provide replacements in the future.

Your Directors will continue their study of this problem in deciding what sums it is necessary to retain in the business in order to ensure its future.

RENOVATION AND CONSTRUCTION

During the year the bottling unit in the Toronto plant was completed and has been producing since 1st July, 1948. Entirely new fermenting and storage tanks, cooling and other equipment have been installed and are in operation at the Toronto plant. The cost to date of renovating and re-equipping the Toronto brewery has amounted to about \$1,100,000. A new retail store has been built on King Street and a large, modern, fully equipped garage has been erected close to the plant and is now in use.

The building of additional fermenting and storage capacity in London postponed last year, is under way. The improvement in the U.S. dollar situation and the continued high demand for your Company's product were the factors influencing your Directors' decision to proceed.

The installation of a new bottling unit in London has been authorized by your Directors to take care of the increased trend in sales from draught to bottled products and to reduce operating costs.

CONDITIONS IN THE INDUSTRY

Again, during the last summer demand exceeded supply and even with the building programmes of the various breweries this condition may continue during the forthcoming year.

Rising costs of labour and material finally made it imperative for the industry to raise prices to the public. Surely this was the last major industry in Canada to do so and the price increase in Ontario amounted to only 8%.

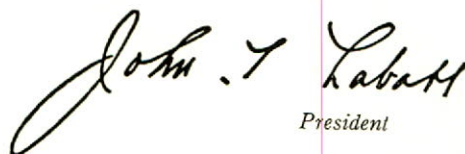
GENERAL

It is with great regret that your Directors must record the death of Mr. R. H. Cronyn, who had been a Director of the Company since 20th November, 1937. Because of his wide connections, varied interests and the high personal regard in which he was held, his presence on the Board will be greatly missed. His term of office has been filled by his brother, Mr. V. P. Cronyn, who brings to the Company a business experience and ability long recognized in Ontario.

The number of Shareholders as at 1st October, 1948, was 2,192. To them your Directors wish to express sincere appreciation of their interest and support.

Your Directors record with satisfaction the continuance of a sound relationship between the employees and the management of your Company, based upon an understanding of common interests and a mutual respect.

Submitted on behalf of the Directors,


President

London, Ontario,
29th November, 1948.

John Sabatt

CONSOLIDATED BALANCE

ASSETS

CURRENT:

Cash on hand and in banks			\$	64,681
Dominion of Canada bonds at market value and accrued interest . . .				1,316,000
Accounts receivable less reserve for doubtful accounts				861,289
Inventories as determined and certified by the management, valued at the lower of cost or market—				
Beer and ale	\$1,424,523			
Materials and supplies	381,477	1,806,000	\$	4,047,970

FIXED:

	Asset at cost	Reserve for depreciation	Net book value	
Land	\$ 326,799		\$	326,799
Buildings	4,018,686	\$ 946,765		3,071,921
Machinery and equipment	2,670,192	1,836,707		833,485
Trucks and automobiles	994,516	462,053		532,463
	<u>\$8,010,193</u>	<u>\$3,245,525</u>		<u>4,764,668</u>

OTHER:

Advances to Brewers' Warehousing Co. Limited		\$	473,424	
Prepaid expenses, deferred charges and sundry assets . .			258,525	
Bottles—valued at redemption price	\$ 510,075			
Kegs at cost less amounts written off	59,305		569,380	
Refundable portion of excess profits tax			725,000	2,026,293
				<u>\$10,838,967</u>



and its Subsidiaries

(Incorporated under the
Dominion Companies Act)

SHEET—30th SEPTEMBER, 1948

LIABILITIES

CURRENT:

Accounts payable and accrued charges	\$ 775,344	
Dividend payable 1st October, 1948	225,000	
Provision for taxes payable and contingencies less payments on account and in advance	923,410	\$ 1,923,754

RESERVES:

Reserve for replacement of plant and equipment	\$2,000,000	
Reserve for redemption of containers in hands of public	500,000	2,500,000

CAPITAL AND SURPLUS:

Capital—

Authorized—1,000,000 common shares without par value		
Issued—900,000 common shares	\$ 340,000	
Earned surplus	6,075,213	6,415,213

NOTE: The company has commenced construction of fixed assets which it is estimated will cost approximately \$1,000,000. when completed.

On behalf of the Board

JOHN S. LABATT, Director
HUGH F. LABATT, Director

\$10,838,967

AUDITORS' REPORT TO THE SHAREHOLDERS

We have made an examination of the consolidated balance sheet of John Labatt Limited and its subsidiaries as at 30th September, 1948 and of the statements of consolidated profit and loss and consolidated earned surplus for the year ended on that date. In connection therewith we examined or tested accounting records of the companies and received all the information and explanations we required from their officers and employees; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We report that in our opinion the above consolidated balance sheet and the related statements of consolidated profit and loss and consolidated earned surplus have been drawn up so as to exhibit a true and correct view of the state of the companies' affairs on a consolidated basis at 30th September, 1948, and of the results of their combined operations for the year, according to the best of our information and the explanations given us and as shown by the books.

London, Canada, 15th November, 1948.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Statement of Consolidated Profit and Loss

For the Year Ended 30th September, 1948

Operating profit before deducting the charges set out below			\$3,137,819
Deduct:			
Directors' fees	\$	3,000	
Executives' remuneration		108,000	
Legal fees		7,189	
Provision for depreciation		317,732	435,921
			<u>\$2,701,898</u>
Add miscellaneous income less expenses			85,842
			<u>\$2,787,740</u>
Provision for Dominion and Provincial taxes on income			1,060,000
			<u>\$1,727,740</u>
Consolidated net profit for the year			<u><u>\$1,727,740</u></u>

Statement of Consolidated Earned Surplus

Balance at 30th September, 1947			\$5,862,307
Add:			
Consolidated net profit for the year			1,727,740
Wartime inventory reserve released	\$	516,433	
Less provision for excess profits tax payable thereon		79,000	437,433
			<u>\$8,027,480</u>
Deduct:			
Net loss on disposal of fixed assets and investments and amount required to reduce investments to market value	\$	52,267	
Dividends		900,000	
Provision for replacement of plant and equipment		1,000,000	1,952,267
			<u>\$6,075,213</u>
Balance at 30th September, 1948			<u><u>\$6,075,213</u></u>

The General Manager's Report

To the President and Directors of John Labatt Limited:

The following report refers to the more important matters which have affected your Company's operations during the past fiscal year.

The decrease in working capital is explained in the following statement:

Funds expended during the year:

On additions to buildings, plant, equipment, trucks and automobiles (net).....	\$1,513,193	
On advances to Brewers' Warehousing Co. Limited.....	214,736	
Dividends.....	900,000	
Increase in inventory of bottles and kegs.....	122,662	
Provision for taxes payable on wartime inventory reserve.....	79,000	
Increase in prepaid expenses, and other sundry items....	41,833	
		\$2,871,424

Funds acquired during the year

Net profit for the year.....	\$1,727,740	
Provisions for depreciation charged in arriving at the above profit but which did not require an outlay of cash.....	317,732	
Refundable excess profits tax recovered.....	67,175	
		2,112,647

Decrease in working capital.....		\$ 758,777
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Income and Costs

While costs rose steadily throughout the year, prices of your Company's products were not adjusted until the summer in Ontario and after the end of the fiscal year in other Provinces. While production and sales were about the same as the previous year, gross profit was somewhat lower. An increase in the ratio of bottle sales to draught offset to some extent the increase in costs.

Distribution expenses were higher due to increased freight charges and costs incidental to an extension of the Brewers' Warehousing Company Limited services. It is noteworthy that the present method of distribution in Ontario results in very low distributing costs when compared with any other system.

Greater competition and further expansion of the sales force have increased selling and advertising expenses. Other expenses rose in line with general costs.

The anticipated recovery of refundable tax due on or before 31st March, 1949, amounts to \$195,000.

Operations

Completion of the present programme of renovation at the Toronto plant and the erection of the fermenting and storage building in London will place your Company in a better competitive position since the demand for your Company's products again exceeded supply during the past year.

The truck fleet was augmented by the addition of ten streamlined tractor trailers. These, in design and in mechanical efficiency, are the most modern in existence. There are now 60 tractor trailer units on the highways.

A special effort was made during the year on maintenance work and your plant and equipment are now in first class shape. This work entailed higher than normal expenditures.

Three of your senior executives attended and benefited from the Advanced Management Course at the University of Western Ontario, which was guided by personnel from the Harvard School of Business Administration.

Public Relations

During the year, at the instigation of the National Brewery Workers' Union, Local No. 1, an Employees' Public Relations Association was formed. This Association comprises all employees with the exception of top management. Its purposes are, first, to increase and accelerate the flow of information relative to the Company's operations and policies throughout all employee groups; second, to assist the Company in every way possible in the furtherance of its aims and policies. This Association has proved to be a forward step in the development of the good internal and external relations of the Company.

As summarized in the following pages of this report, the Transportation Department has contributed to your Company's public relations programme.

During the widespread floods in the spring, the salesmen in the territories involved, with members of the transportation division, gave pumping service to hotels, public buildings and residences over a wide area.

Personnel

Employees now number 980 in both plants. The turnover remained at a gratifying 8%, while absenteeism showed a further decrease of 11.5%.

The Union and the management agreed to a quarterly cost of living wage adjustment and an additional week's holiday for employees with 20 years of service and over.

The Pension Fund now amounts to \$1,305,000, to which the Company has contributed \$870,000 and the employees \$435,000.

Training of foremen, salesmen and other personnel has been extended and intensified.



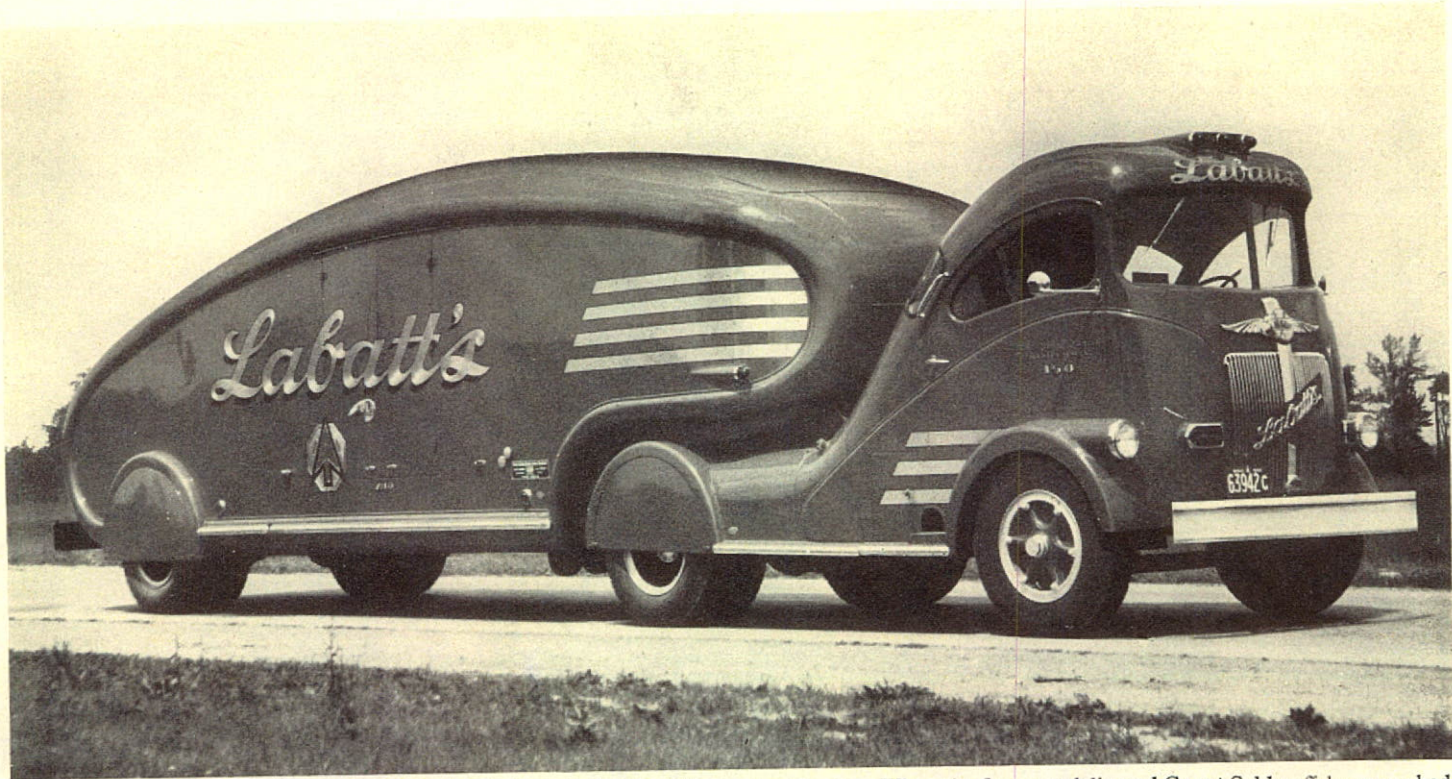
Your management wishes to recognize here the invaluable contribution made by the department heads to the continued success of the Company. The Union members in London and Toronto have been more than co-operative. All employees have shown an intelligent understanding of operational problems and a cheerful willingness to give, when necessary, extra time and effort.

Respectfully submitted,

Nugh Mackenzie

General Manager.

London, Ontario,
26th November, 1948.



THE FOURTH—OR 1948 MODEL—in the Labatt family of Streamline Trucks. When the first was delivered Count Sakhnoffsky remarked that Labatt's were the only firm to give him a completely free hand. This policy paid off in a lower cost per gallon shipped.

Completion of Toronto garage and delivery of ten new Streamliners makes 1948 a banner year in Labatt's transportation department

"The two most beautiful things I have seen in Canada," the Speaker paused, "were Lake Louise and the Labatt trucks."

When a distinguished visitor said this before the war, Labatt's famous streamliners were already a familiar sight on the highways of Ontario. Designed by Count Alexis de Sakhnoffsky, they had already proved themselves not only beautiful but also extremely efficient.

This year the delivery of ten new streamliners and the completion of an ultra-modern garage at the Toronto Plant, make it appropriate that we include a picture story on your transportation department in this report.



SOME OLD TIMERS remember when Labatt's first became "mechanized" with their "horseless dray."



BUT IN 1928 came the first tractor job. Streamlining still in the future!



THE INTERIOR OF THE RECENTLY COMPLETED GARAGE IN TORONTO.

THE efficient shipping of Labatt's Ales and Beers throughout the Province will be considerably facilitated by the completion of the garage in Toronto. With a total floor area of 15,000 square feet it can

handle conveniently the whole of Labatt Toronto fleet consisting of 2 streamliners, 5 stake body trucks, 14 city delivery trucks, 1 dump truck, and 1 general purpose truck with snow plough attachment.



LABATT DRIVERS' WAITING ROOM IN TORONTO.



GARAGE ENTRANCE, FRONT STREET, TORONTO.

Driver Training

ONE of the great assets of your company is the wide-spread reputation earned by your drivers for courtesy, consideration and above all, for safe driving. This enviable reputation is in a very great measure due to thorough training of every driver by the most modern scientific methods.

A recent important development of this pioneer work by Labatt's in driver training, has been their co-operation with and support of municipal and scholastic authorities in promoting a more general acceptance of these up-to-date methods.



A LABATT DRIVER TESTING HIS FOOT REACTION TIME.



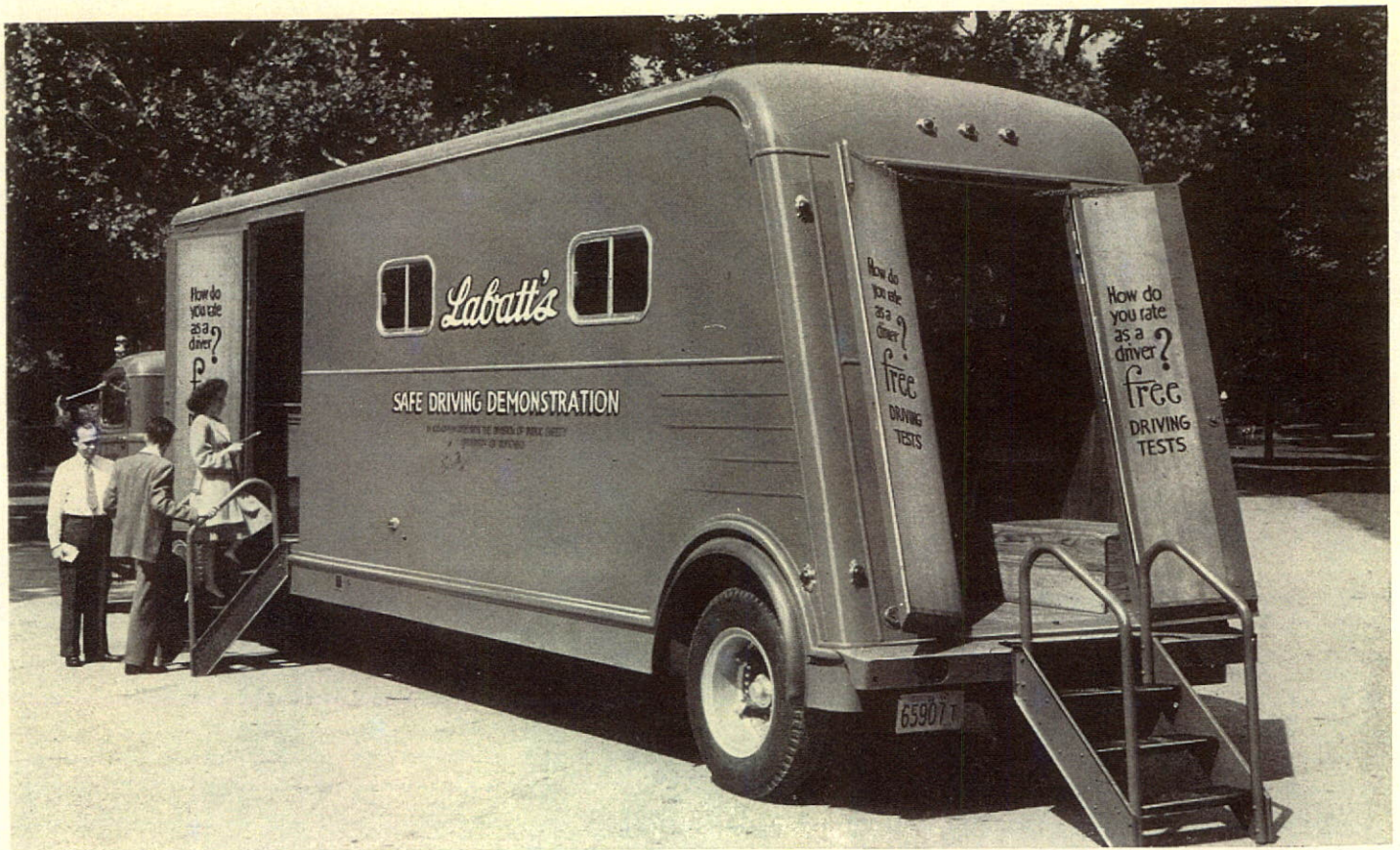
LABATT DRIVERS ON ST. JOHN AMBULANCE INSPECTION.



CAN HE GET THROUGH WITHOUT TOUCHING 'OBSTACLES'?



BRAKING TO A PRECISE SMOOTH STOP.



50,000 PEOPLE HAVE TESTED DRIVING SKILL IN THESE TRAILERS.

PUBLIC opinion is becoming more and more aroused on the subject of safe driving. Your company is offering wholehearted support to public bodies who are anxious

to organize their own training programs. The presence of the two Labatt safe driving units at hundreds of public events has created a tremendous public interest.



COLONEL W. A. BRYCE, DIRECTOR OF DIVISION OF PUBLIC SAFETY, sits in trailer with Labatt's Toronto Dispatcher.



"JUST TIGHTENING THE BOLTS, LADY"

"ON FRIDAY, June 25th, I had a blow-out on the Queen Elizabeth Highway, with three very small children in the car. In the terrible heat, I was at a loss to know what to do next when your beautiful red truck pulled up in front of me and the driver offered his services. Of course I accepted with the greatest of relief in the world. Having changed the tire, he refused to take any remuneration and waited till he saw I had crossed the highway safely."

This letter from a grateful motorist is typical of the thousands Labatt's receive every year. Another writes . . .

"I had often heard of the service rendered to stranded motorists by your Company but never ex-

pected to see one of your trucks stop so late in the evening and be of such great assistance to me.

During the evening I told the other members of the sales staff about the kind assistance I had received and we toasted your driver with many a pint of good old Labatt's India Pale Ale."

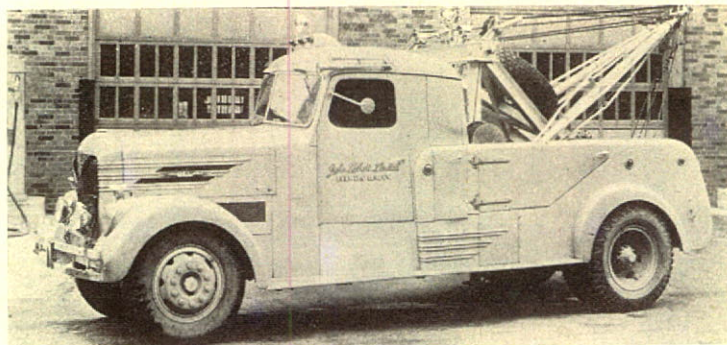
The tradition that no Labatt driver ever passes another car in distress on the highway has, through the years, built for your company an incalculable reservoir of goodwill.

In the nearly 3,000 letters received last year there has been a growing indication that motorists helped mean to make a point of telling others of their experience.

In the Public Service

"No. 4 Highway north of London has been cleared by the Department of Highways Snow Plough. The Highways south of London have been ploughed by John Labatt Limited" reported the local papers during the heavy snows of January, 1947.

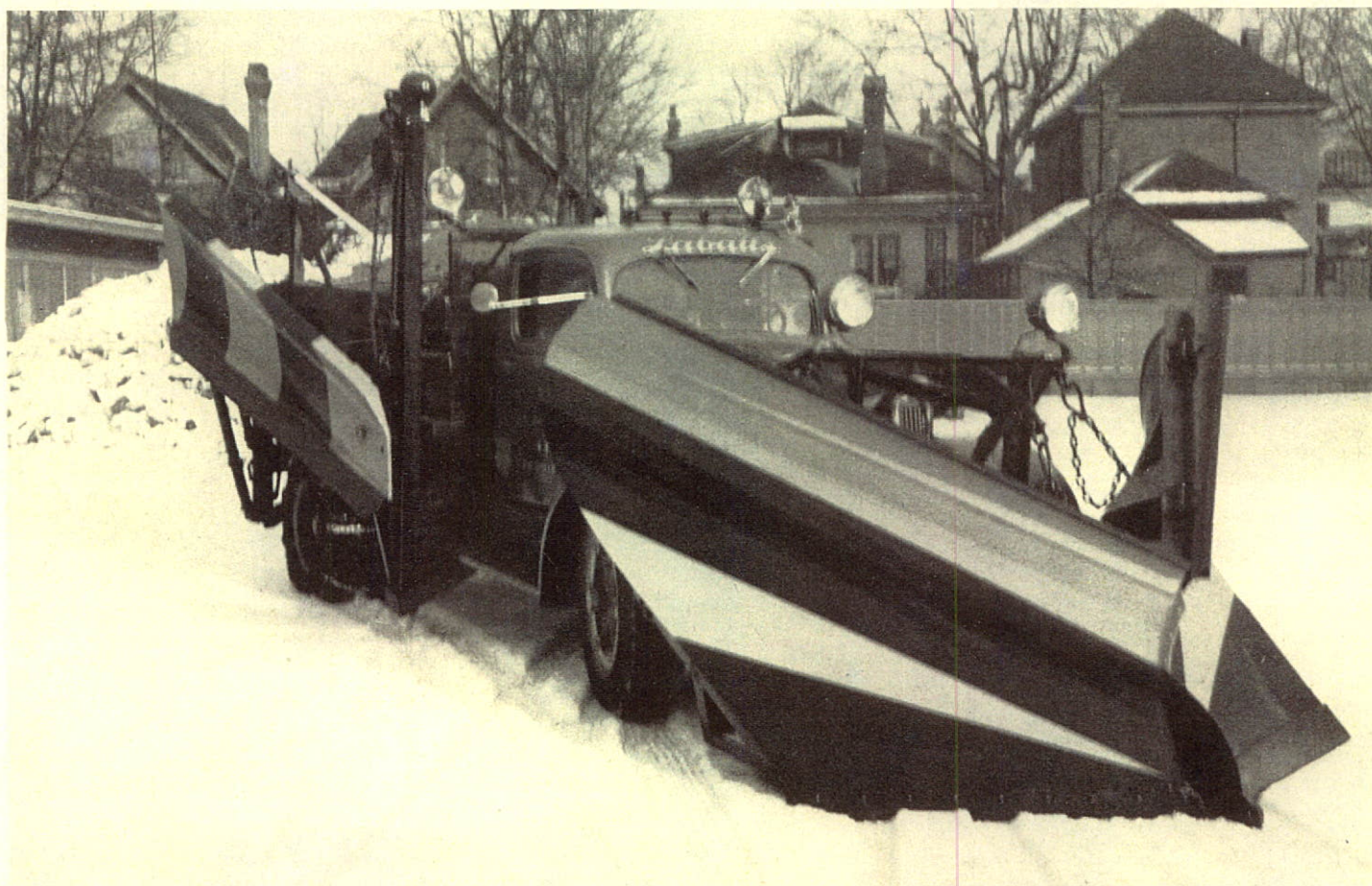
It is a part of the policy of Labatt's Transport Department to make its equipment available in the public service whenever occasion arises. From training Army mechanics in wartime to helping victims of Thames floods, 'community needs come first' is the principle that governs every member of the Department.



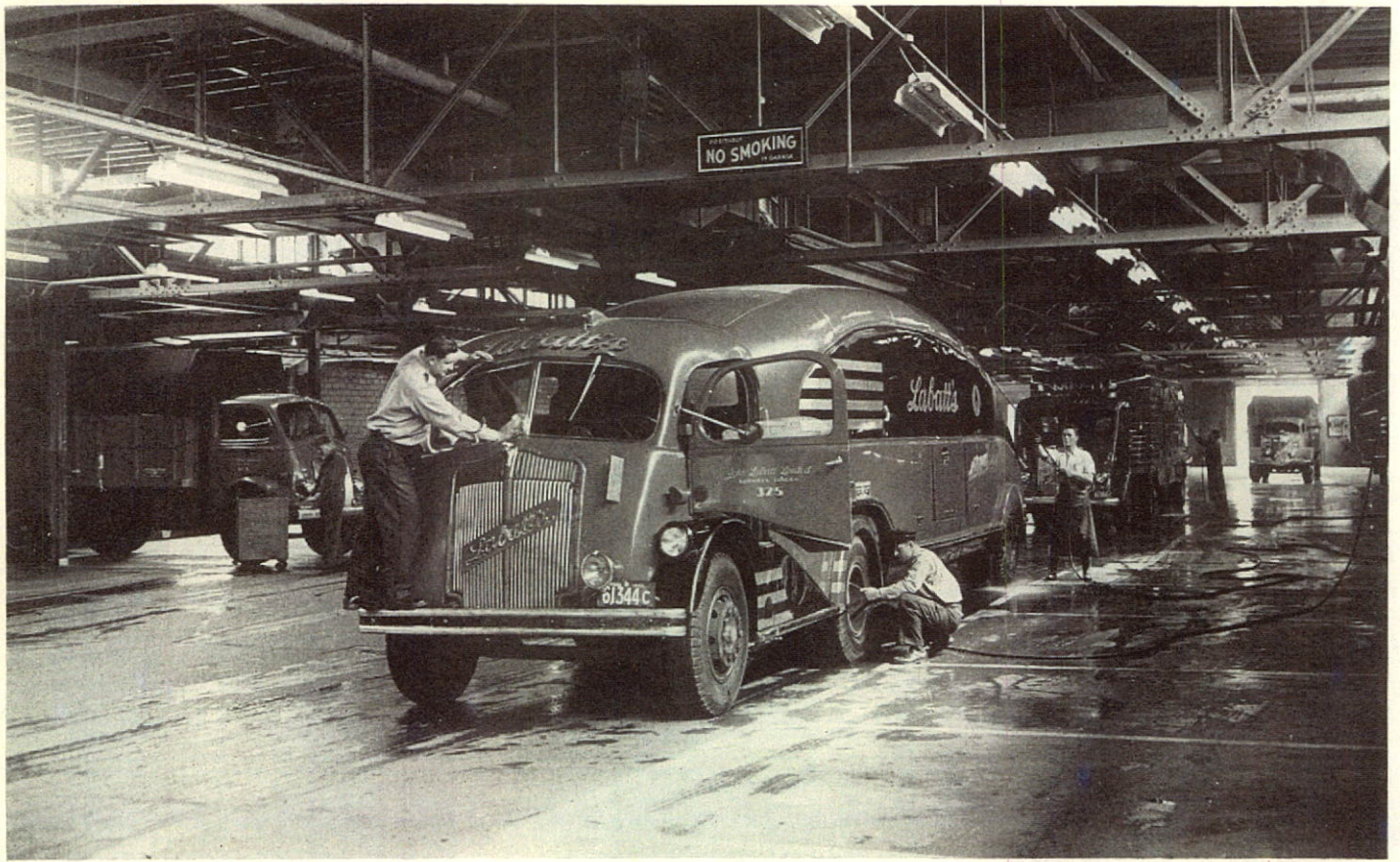
WRECKER—LIFTS TEN TONS, PULLS 20!



PUMPING FLOOD WATER FROM A CELLAR



LABATT SNOW PLOUGH TRIMMED FOR ACTION



BEAUTY TREATMENT FOR A STREAMLINER

THE LONDON GARAGE—now supplemented by the Toronto Garage—provides full care and proper maintenance for nearly 200 vehicles. Many hundreds of thousands

of gallons are shipped every year in Labatt's Streamliners; additional thousands of gallons travel by rail, water and by independent road transport companies.



LABATT'S ARE IMPORTANT RAILROAD SHIPPERS TOO.



LABATT'S TRANSPORTATION CHIEF, MR. R. L. (BUD) MORRIS



THESE TWO FINE OLD GENTLEMEN appear now for the third consecutive year on the cover of your Annual Report. They suggest so well the solid contentment and temperate enjoyment which is associated in our minds with 'good honest beer', that many shareholders have asked us who they are. On the left, then, is Charlie Trapps, for nearly 20 years a 'joiner' in the Bottling Department, who retired on pension just three years ago. On the right, Bob Sergeant who was with Labatt's since June, 1927, and who retired in October, 1945. To both 'Good Luck and Good Health'.